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October 3, 2022 – Economic Commentary

Inventory management has been a challenge for businesses in the US and globally as supply chain bottlenecks disrupt the normal process of placing orders and delivering product to customers. While lean inventories are desirable from a cost standpoint, the possibility of lost sales, if products are not readily available is a pain point. In the third quarter, wholesale and retail inventories in the United States rebounded from a second-quarter drawdown, facilitated by improved supplies and fewer transportation problems. Such an increase in inventories would generally be considered typical for the quarter as part of the preparation for holiday sales and end-of-year business planning. However, talk about a Fed-induced recession, global economic slowdown, and the higher cost of inventory financing due to rising interest rates raises questions about the degree to which this inventory build-up is intentional or a reflection of weakening demand. No matter the cause, inventories are likely to be drawn down substantially in the fourth quarter, reducing economic growth from the currently estimated 2% to something closer to 1% or less as the year closes out.

Data to Watch:

1. US JOLTS Job Openings and Job Quits data for August, released Tuesday, October 4
2. US Non-Manufacturing Purchasing Managers Index for September, released Wednesday, October 5
3. US Non-Farm Payrolls and Unemployment Rate for September, released Friday, October 7
4. ECB President Christine Lagarde speech, Tuesday, October 4

Suggested Reading:

OPEC Plus Considering Major Production Cut to Prop Up Oil Prices

U.K.'s Central Banker Faces Inflation, a Financial Crisis and His Own Government

Seniors are stuck home alone as health aides flee for higher-paying jobs

For Corporate America, Strong U.S. Dollar Cuts Both Ways